

2005 Legislative Session Highlights

The retirement system's primary goal for the 2005 General Session was to obtain funding for the medical insurance program under House Bill 434 so that medical insurance could continue to be provided to retirees at current benefit levels. The unexpected 42% increase in the State Group Health Plan medical insurance premium cost for the 2005 plan year produced an immediate funding crisis for the KTRS medical insurance program. The funding crisis became even worse when the Personnel Cabinet announced that the State Group Health Plan cost could possibly increase by an additional 25% for the 2006 plan year.

The Executive Budget presented in early February of 2005 did not contain funding for the medical insurance program under House Bill 434. However, both the House of Representatives and the Senate were very receptive to the requests of KTRS and the many, many members who contacted their elected officials to request the necessary funding. As a result, both the House and Senate final versions of the Executive Budget (identified as House Bill 267) contained a vehicle to achieve the total funding requested for the current biennium in the amounts of \$29 million for fiscal year 2004-2005 and \$62 million for fiscal year 2005-2006, for a total of \$91 million. This bill was signed into law by the Governor on March 20, 2005. KTRS members were extremely diligent in contacting their legislators to achieve funding for medical benefits through 2006. This action on the part of the members was extremely important and you are to be commended for your efforts in making your concerns known to your representatives.

As many of you are aware, the budget for the 2004-2006 Biennium was passed in this 2005 Session because a biennial budget was not passed in the regular 2004 Session. As the unexpectedly extreme increase in the cost of health insurance premiums could not have been reasonably anticipated during the 2004 Session, KTRS was extremely fortunate that the additional funding needed for medical insurance was secured in this 2005 Session. Due to the limited availability of new funds in the state budget, the only means available for funding the \$91 million needed by the KTRS medical insurance program for the 2004-06 biennium was to amortize the cost over a ten year period. While the amortization method was a solution in the short run for 2004-06, it is extremely important that the future funding needs required under House Bill 434 be included in the budget related to that biennium.

Other highlights of the Executive Budget include funding, on an amortized basis, for a 0.8% ad hoc COLA which was added to the base COLA of 1.5%, for a total COLA of 2.3% effective for KTRS retirees on July 1, 2004, and a 0.7% ad hoc COLA which will be added to the base COLA of 1.5%, for a total COLA of 2.2% effective July 1, 2005. Amortization of sick leave payments and minimum value benefits was also provided. These items were all included in the original Executive Budget approved by the Governor's Office and have now been enacted into law, along with the medical insurance funding provision.

Another bill of interest is House Bill 272 which is sometimes referred to as the "tax modernization bill." Under this bill, the amount of all retirement and pension allowances and payouts excluded from the definition of "adjusted gross income" for state tax reporting purposes was raised to \$41,110 for all taxable years beginning after December 31, 2005. The 2004 tax year exclusion, by comparison, was \$40,200. While the current exclusions have been increased each year with the increase in the Consumer Price Index, the new exclusion is frozen for tax year 2006 and all future tax years, unless otherwise changed by the General Assembly.